R.J. Reynolds Tobacco Company

Mark Young
New York Metro

February 16, 1998

To: Mark Labrecque / Lori O'Connor / Ronda Plummer

Subject: Salem Cigars

After getting input from the Managers in the Region that deal with our Direct Accounts and Sub-Jobbers, we feel that the following recommendations should be considered when building a account program that will "Incent" the Direct Account to Totally handle this introduction ..... NO involvement with our Sales People on the Street!

Basic Pricing and Promotional Program:

Salem Cigars	revised 2/98	Cigars 80,000	Cases 160	Boxes/25 3,200
RJR Cost (McDonald)		$ 1.00	$500.00	$ 25.00
Shipping cost		$ 0.05	$25.00	$ 1.25
Federal Tax		$ 0.03	$15.00	$ 0.75
Duty Tax		$ 0.01	$5.00	$ 0.25
Ad Val import Tax		$ 0.02	$10.00	$ 0.50
		$ 1.11	$555.00	$ 27.75
List Price (to DA's)		$ 1.65	$825.00	$ 41.25
NY Tax		$ 0.33	$165.00	$ 8.25
D/A Cost		$ 1.98	$990.00	$ 49.50
D/A Mark-up / 15%		$ 0.30	$150.00	$ 7.50
D/A List to Retail		$ 2.28	$1140.00	$ 57.00
Retail Markup @ 40%		$ 0.92	$460.00	$ 23.00
NY Sales Tax @ 8.25%		$ 0.27	$135.00	$ 6.75
Retail Sales Price		**$ 3.47**	**$1735.00**	**$ 86.75**

Box: 25 cigars
Case: 20 boxes of 25 cigars

RJR D/A Program
(Not off-Invoice)

$3.00 Display Allowance to Retail
$3.00 Incentive to Jobber SR
$1.00 Payment to Direct
$7.00 (Net Back)

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As you can see from the above pricing chart, two main parts have been changed when compared to the original worksheet that was sent a couple of weeks ago.

Number 1 change: *Is the column that we added for the Direct Account Mark-up (profit). This has to be a part of the structure (totally unrelated to our promotional program) prior to any D/A considering this new product line.*

Number 2 change: *Is to make the Direct Account Promotion totally separate from the basic pricing structure of the new product. This promotion and earned payment should be handled in the same manner as our current DPC program ..... we'll make payment when the Direct Account implements the program. This will help us control what stores are offered the Salem Cigar (targeting).*

These changes will make the program (in our opinion) very workable with our customers. As soon as the product availability timing is set, we need to schedule a meeting the NYM Kam's and Am's to really discuss what is needed to effectively work this program. We have several questions to lay on the table prior to the introduction.

Look forward to seeing the three of you soon!

Sincerely,

Mark Young

cc: Mike McHugh
Rory O'Rourke
Moulton, Groll, Mallardi, Reuter

Word file: Cigar2.doc

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